MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

BAC 2634 – FINANCIAL ACCOUNTING AND REPORTING II

(All sections / Groups)

12 AUGUST 2022
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENT:

1. This paper consists of **NINE (9)** pages excluding cover page with **4** Questions only.
2. Answer **ALL** questions.
3. All questions carry equal marks and the distribution of marks for each question is given.
4. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Part A

A physical inventory count was carried out by BRG Bhd at the main warehouse on 30 June 2022 and the inventory held there was correctly valued at RM102,300. However, it was subsequently discovered that this amount did not include two products, Product A and Product B. The following information relates to these products at 30 June 2022.

Product A

The physical inventories count showed 210 finished units. Normal planned production was 4,500 units however only 4,000 units were made during the year due to a fault on one of the machines. Production costs were:

	RM
Labour and material costs	182,000
Variable overheads	38,000
Fixed production overheads	63,000

Product B

Closing inventories for Product B were RM32,300. However, this included 300 units of obsolete product at a cost of RM45 per unit. The obsolete product had been selling at a discounted price of RM30 per unit during June and July 2022.

Required:

Compute the cost of ending inventory as at 30 June 2022 in accordance with MFRS 102 *Inventories*. (9 marks)

Part B

TBF Research Bhd is a listed Malaysia company conducts research and product development. It has invested RM50 million in equipment for the purpose of conducting scientific research. The equipment has an anticipated useful life of eight years. TBF Research adopts the straight line method of depreciation. Assume a zero residual value for the equipment.

TBF Research prepares its financial statements in accordance with MFRS. During the acquisition of the equipment, the company obtained, for the first time, a government grant of RM20 million from the Federal Government towards the purchase of the equipment, which is conditional on certain employment targets being achieved within the next four years.

Required:

Discuss how TBF Research Bhd should recognize and measure the government grant by reference to the relevant accounting standards. (7 marks)

Continued...

Part C

The R & D division of Bio Tech Bhd undertakes both research and development activities of the company. The research and development expenditure incurred for the year ended 31 December 2022 was RM390,500. These intangible assets related to the development of a new waterproof fabric, which was assessed as being commercially viable on 31 March 2022. The development of the fabric was completed on 31 August 2022, and the first fabric was delivered to customers on 1 September 2022. The amount capitalised is made up as follows:

	RM
Research costs	100,000
Fabric-testing machine	20,000
Development costs incurred prior to 31 March 2022	35,500
Development costs incurred from 1 April 2022 to 31 August 2022	225,000
Marketing costs	10,000
	390,500

No amortisation has been charged on this amount. The fabric technology is estimated to have a three-year life before it is superseded by superior products. The fabric-testing machine was purchased on 1 January 2022 and has an estimated four-year useful life.

Required:

Compute the amount, if any, of the expenditure listed above to be included in the financial statement for the year ended 31 December 2022. Interpret your answer with explanations and in reference to MFRS 138 *Intangible Assets*. (9 marks)

[TOTAL: 25 MARKS]

Continued...

QUESTION 2

The following information relates to MG Bhd for the year ended 30 June 2022 and 2021.

MG Bhd
Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2022

	RM'000
Revenue	1,000,000
Less: Cost of sales	(600,000)
Gross profit	400,000
Depreciation on building	(8,000)
Depreciation on plant and machinery	(16,000)
Staff cost	(54,000)
Loss on disposal of plant and machinery	(10,000)
Operating expenses	(231,200)
Profit before tax	80,800
Income tax expense	(20,000)
Profit for the year	60,800

MG Bhd
Statement of Financial Position as at 30 June 2022

	2022 RM'000	2021 RM'000
Non-current assets		
Property, plant and equipment	466,000	338,000
Current assets		
Inventories	110,000	166,000
Trade receivables	440,000	250,000
Cash at bank and in hand	120,500	56,000
Total current assets	670,500	472,000
Total assets	**1,136,500**	**810,000**
Equity		
Ordinary shares	500,000	240,000
Preference shares	200,000	200,000
Revaluation surplus	40,000	-
Retained earnings	127,300	108,000
Total equity	867,300	548,000

Continued...

Current liabilities		
Trade payables	225,200	236,000
Income tax payable	6,000	2,000
Accrued operating expenses	38,000	24,000
Total liabilities	269,200	262,000
Total equity and liabilities	**1,136,500**	**810,000**

Additional information:

i) The non-current asset schedule revealed the following details:

	2022	2021
Land	150,000	90,000
Buiding (cost)	272,000	224,000
(-) Accumulated depreciation	(56,000)	(48,000)
Plant and machinery (cost)	228,000	200,000
(-) Accumulated depreciation	(128,000)	(128,000)
	466,000	338,000

ii) Land with carrying value of RM90,000,000 was revalued to RM130,000,000. There was no disposal of land during the year but there was an acquisition.

iii) No buildings were sold during the year.

iv) Plant and machinery costing RM66,000,000 was sold.

v) The company paid preference dividends of RM19,500,000 and ordinary dividends of RM22,000,000.

Required:

a) From the information given, prepare the statement of cash flows using indirect method for the year ended 30 June 2022. (20 marks)

b) Briefly interpret ways in which statements of cash flows may be more useful than statement of income. (5 marks)

[TOTAL: 25 MARKS]

Continued...

QUESTION 3

Part A

PG Bhd sells health care products to several retail outlets. In reviewing the financial statement, the managing director identify the following issues with the finance manager:

a) The factory building was initially measured at cost. After initial recognition, PG Bhd adopted cost model to measure the factory building. The management determined to change to the revaluation model from current year.

b) A machine has been purchased last year with estimated useful life of 10 years. However, a fire accident happened at the factory recently. Although it did not result in serious damage, the remaining expected life of the machine has been shortened to five years.

Required:

Apply MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to explain the appropriate accounting treatment for the above events. (4 marks)

Part B

MKT Bhd is a Malaysia technology company. On 1 January 2022, as part of a special promotion, MKT Bhd sold 200 units of the Product H at RM442 per unit. The special promotion was at a reduced selling price and included a 24-month technical support package.

The usual selling prices are

- RM460 for the Product H, and
- RM60 for the 24- month technical support package.

Control of each Product H unit was passed to the customer on delivery of each unit. The accounting year end for MKT Bhd is 31 March each year.

Required:

Apply MFRS 15 *Revenue from Contracts with Customers* to discuss how MKT Bhd should account for the contract with the customer. (10 marks)

Continued...

Part C

Napkin Bhd is a textile manufacturer and a listed company. On 1 January 2022, Napkin Bhd had in place RM500,000 of 6.0% pa loan finance and RM800,000 of 4.7% pa loan finance. Neither loan was taken out for a specific purpose. On 1 February 2022 the company began to construct a new office building, which is a qualifying asset, per MFRS 123, *Borrowing Costs*. The building was funded by this existing loan finance. The expenditure incurred for the construction of the office building was RM582,400. The building was completed and available for use on 31 October 2022, and has an estimated total useful life of 50 years. The company moved its administrative function into this building on 31 December 2022.

Required:

a) Compute the capitalisation rate to be applied for interest capitalisation to the new office building for the 2022 financial year. (2 marks)

b) Discuss how should the commencement and cessation of capitalisation of borrowing costs to be determined for Napkin Bhd. (3 marks)

c) Determine the borrowing costs that shall be included in the costs of the new office building for the year ended 31 December 2022. (3 marks)

d) Prepare the journal entry to account for the borrowing costs capitalised and depreciation of new office building for the year ended 31 December 2022. (3 marks)

[TOTAL:25 MARKS]

Continued...

QUESTION 4

Part A

Jortun Sdn. Bhd. is a subsidiary of ICII Bhd. which specialise in the provision of paints in Petaling Jaya. It makes up its account to 31 December each year. Jortun Sdn. Bhd. held 60% of the market share. However, over the last twelve months, the general market has declined 30% due to economic slowdown.

The board of directors would like to know its performance compared with the closest competitor, Nipon Sdn. Bhd. The comparative statements of Jortun Sdn. Bhd. and Nipon Sdn. Bhd. are presented below:

Extracts of Statement of Profit or Loss for the Year Ended 31 December 2021

	Jortun RM	Nipon RM
Net Sales	3,098,070	678,076
Cost of goods sold	2,160,980	482,000
Gross Margin	937,090	196,076
Operating expenses	604,550	158,000
Income from operations	332,540	38,076
Interest expense	17,960	4,504
Income before income taxes	314,580	33,572
Income tax expense	109,000	13,300
Net Profit	205,580	20,272

Extracts of Statement of Financial Position As At 31 December

		Jortun 2021 (RM)		Nipon 2021 (RM)
Non-current Assets		1,042,620		279,456
Current Assets	651,950		166,672	
Less: Current Liabilities	(130,650)		(70,696)	
		521,300		95,976
Net Assets		1,563,920		375,432

Other information

	Jortun 2021	Nipon 2021
% of customers transferring from other paint suppliers to the company	20%	8%
No of customers complaints	84	315
Labour turnover	10%	32%

Continued...

All computations are to be rounded up to one decimal point.

Required:

a) Compute the percentage of all items against Net sales in the Statement of profit or loss for both companies. (2 marks)

b) Compute the following ratios for both companies:
   i. Net profit margin (1 mark)
   ii. Asset turnover (1 mark)
   iii. Return on capital employed (1 mark)
   iv. Current ratio (1 mark)

c) Based on the above result, interpret the performance of the two companies. (7 marks)

Part B

JV Durian Farms Bhd has durian trees which bear durians. JV Durian Farms Bhd's financial year-end is 30 June. It is estimated that the market value of the durian of RM 600,000 were picked on 30 June 2022. The costs of picking, sorting, and packing amount to RM240,000 paid in cash. The durians were sold two days after for RM612,000 in cash.

Required:

a) Discuss whether the above activities are within the scope of MFRS 141 *Agriculture*. (2 marks)

b) Prepare the journal entry to recognise the harvest of durians on 30 June 2022 and sales of the durians. (4 marks)

Part C

BP Petroleum Bhd is the largest oil and gas company in Malaysia. The company began to have exploration for and evaluation of oil field in west coast of Malaysia. It incurred the following expenditures:

	RM
Acquisition of rights to explore the oil field	2,000,000
Exploratory drilling	3,000,000
Evaluation of the technical feasibility and commercial viability of the oil	2,000,000
Recruiting and training the labour involved in exploration and evaluation activities	4,000,000
Recruiting and training the office employees	2,000,000

Continued...

During the year, BP Petroleum Bhd also purchased a new office around the new field at a consideration of RM20 million which is to be held as freehold.

Required:

Compute the costs that are attributed to the exploration and evaluation assets and the classification of other costs. (6 marks)

[TOTAL: 25 MARKS]

End of Page